

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 NEA-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 AGR-05 L-03 H-02 PA-01 PRS-01 /096 W

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R 080955Z JUL 75

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 7376

INFO AMEMBASSY ISLAMABAD

AEMBASSY MANILA 450

AMEMBASSY NEW DELHI

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STATE PASS TO AID; MANILA FOR USADB

E.O. 11652: N/A

TAGS: ETRD, EAID, EFIN, BG

SUBJECT: BANGLADESH IMPORT POLICY JULY-DECEMBER, 1975; EXPORT
TARGET FY 1976

REF: (A) DACCA 3300, JULY 23, 1974; (B) DACCA 281, JANUARY, 1975;
(C) DACCA A-23

SUMMARY: COMMERCE MINISTER ANNOUNCED JUNE 30 BDG IMPORT
POLICY FOR JULY-DECEMBER 1975 SHIPPING PERIOD AND FY 76
EXPORT TARGET. LIBERALIZED IMPORT PROGRAM, AT \$423
MILLION, 44 PERCENT ABOVE JULY-DECEMBER, 1974 ACTUALS,
IS IN LINES WITH ACCORD WITH IMF AND INCLUDES SEVERAL
SPECIFIC POINTS AGREED ON WITH IMF. FY 1975 EXPORT
EARNED ABOUT \$360 MILLION; TARGET FOR FY 1976 IS 400
MILLION, TEN PERCENT BELOW ORIGINAL FY 1975 TARGET OF
\$435 MILLION. END SUMMARY.

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1. MINISTER FOREIGN TRADE AND COMMERCE KHANDKER MUSTAQUE

AHMED ANNOUNCED JUNE 30 BOTH THE IMPORT POLICY FOR THE JULY-DECEMBER 1975 SHIPPING PERIOD AND THE EXPORT EARNINGS TARGET FOR FY 1976 (JULY-JUNE)). THIS IS FIRST TIME THAT BOTH HAVE BEEN ANNOUNCED SIMULTANEOUSLY AND IN SUCH TIMELY FASHION. IMPORT POLICY COVERS IMPORTS FOR INDUSTRIAL AND COMMERCIAL USE/SALE, BUT NOT FOR FOOD, DEVELOPMENT AND REHABILITATION AND CERTAIN GOVERNMENT ENTERPRISES.

2. IMPORT POLICY. FOR BACKGROUND, SEE REFTEL A.
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(A) JANUARY-JUNE, 1975 SHIPPING PERIOD RESULTS.
FOREIGN TRADE SECRETARY NURUL ISLAM TOLD EMBOFF JULY 1 THAT AGAINST TAKA 3 BILLION (\$375 MILLION AT TAKA 8 EQUAL TO ONE DOLLAR) IMPORT TARGET (REFTEL B), ACTUAL RESOURCES MOBILIZED TOTALED TK. 2.85 BILLION. OF THIS SUM, IMPORTS AGAINST BARTER ARRANGEMENTS (PRINCIPALLY WITH EASTERN EUROPEAN COUNTRIES) AND AGAINST THE WAGE EARNERS' SCHEME (A-23) EACH ACCOUNTED FOR TK. 210 TO 220 MILLION, AS TARGETTED. OF REMAINING 2.41 TO 2.43 BILLION, BDG USED 920 MILLION OF OWN RESOURCES, WITH AID FINANCING BALANCE. ACCORDING ISLAM, TK. 150 MILLION SHORTFALL EXPLAINED BY AID SHORTFALLS, WITH BDG RELEASING ADDITIONAL 200 MILLION FROM OWN RESOURCES TOWARD END OF SHIPPING PERIOD, BRINGING BDG RESOURCE INPUT UP TO 920 MILLION LEVEL. OVERALL TK. 150 MILLION SHORTFALL, WHICH BUT 5 PERCENT OFF TARGET, IS EXCELLENT PERFORMANCE WHEN COMPARED TO EARLIER ACTUALS. SHORTFALLS FOR LAST TWO PRECEDING SHIPPING PERIODS WERE 38 PERCENT AND 25 PERCENT BELOW TARGETS RESPECTIVELY (REFTELS).

(B) JULY-DECEMBER SHIPPING PERIOD POLICY. TOTAL IMPORTS ARE PROGRAMMED AT TK. 5.5 BILLION (\$423 MILLION AT TK. 13 EQUALS ONE DOLLAR), 13 PERCENT ABOVE JANUARY-JUNE TARGET. OF THE 5.5 BILLION, 2.08 (47 PERCENT) WILL BE MOBILIZED FROM INTERNAL RESOURCES, WHILE 2.91 BILLION WILL BE FINANCED BY FOREIGN ASSISTANCE. REMAINING HALF BILLION IS DIVIDED ROUGHLY EQUALLY BETWEEN BARTER AND WAGE EARNERS' SCHEME. 72 PERCENT BY VALUE OF IMPORTS WILL BE ON PUBLIC SECTOR ACCOUNT, WHILE 27 PERCENT ALLOCATED TO SOME LIMITED OFFICIAL USE

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12,000 PRIVATE COMMERCIAL IMPORTERS. THE COMMERCE MINISTER EXPRESSED HOPE THAT THE IMPORT FLOWS WOULD HAVE A FAVORABLE EFFECT ON THE PRICE AND AVAILABILITY OF CONSUMER GOODS. TO THIS END, FOR THE FIRST TIME, BDG IS DRAWING ON CASH FOREX RESERVES TO ISSUE IMPORT LICENSES IMMEDIATELY FROM THE BEGINNING OF THE LICENSING PERIOD. PREVIOUS PRACTICE WAS TO AWAIT SIGNING OF AID LOANS, BEFORE ISSUING LICENSES. (WHILE NO RPT NO BDG FIGURE

YET AVAILABLE, WE BELIEVE BDG FINISHED FISCAL YEAR WITH FOREX RESERVES IN EXCESS OF \$250 MILLION AND, OF COURSE, WITH DEVALUATION AND IMF ACCORD, MAY WE ASSUME DRAW STANDBY FACILITY, SECOND AND THIRD TRANCHES PLUS 1975 OIL FACILITY.) ANNOUNCED GOALS IS TO PERMIT MAJOR INDUSTRIES, E.G. JUTE TEXTILE, SUGAR, NEWSPRINT AND PAPER, OIL REFINERY, FERTILIZER, STEEL AND SOAP, TO RUN AT FULL CAPACITY. THE BEST AVAILABLE ENGLISH TRANSLATION OF THE FULL TEXT OF THE ANNOUNCEMENT FOLLOWS BY AIRGRAM.

(C) THE JULY-DECEMBER IMPORT POLICY REPRESENTS A LIBERALIZATION ALONG LINES INDICATED IN BDG ACCORD WITH IMF. OF SPECIFIC POINTS WE BELIEVE ARE COVERED IN BDG LETTER OF INTENT TO IMF, IMPORT POLICY ANNOUNCEMENT:

- (I) REPRESENTS EARLY ANNOUNCEMENT;
- (II) RELATES IMPORT LICENSES TO CAPACITY UTILIZATION;
- (III) REDUCES ROLE OF TRADING CORPORATION OF BANGLADESH TO TEN PERCENT OF IMPORTS, ACCORDING TO FOREIGN TRADE SECRETARY;
- (IV) LIBERALIZES FOREX ALLOCATIONS FOR CONSUMER GOODS (E.G. PHARMACEUTICALS).

3. WAGE EARNERS' SCHEME. DESPITE RUMORS IN JUNE THAT SCHEME WOULD BE ENDED, NEW POLICY ACTUALLY EXTENDS SCHEME. POLICY RESERVES 53 ITEMS (MOSTLY CONSUMERS' GOODS; FULL LIST FOLLOWS BY AIRGRAM) TO EARNERS' SCHEME DURING JULY-DECEMBER PERIOD. THAT IS, IMPORTERS UNDER EARNERS' SCHEME ARE ASSURED THAT BDG WILL NOT RPT NOT IMPORT THESE GOODS, THEREBY ENABLING LARGER PROFITS TO BE MADE FROM EARNERS' SCHEME IMPORTS. IN ADDITION, WAGE EARNERS' SCHEME INCLUDES NUMEROUS OTHER GOODS, BUT BDG ALSO LICENSING IMPORTS OF THESE GOODS.

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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R 080955Z JUL 75
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TO SECSTATE WASHDC 7377
INFO AMEMBASSY ISLAMABAD
AMEMBASSY MANILA
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4. FY 1976 EXPORT TARGET.

(A) FY 1975 RESULTS. ACCORDING FOREIGN TRADE SECRETARY, ON BASIS ELEVEN MONTHS' ACTUAL EXPORTS AND ESTIMATE FOR JUNE, 1975, BANGLADESH EARNED TK. 2970 MILLION OR ABOUT \$360 MILLION FROM EXPORTS IN FY QOUTM FAW JUTE EXPORTS AT TK. 650 MILLION (\$80 MILLION) WERE DISAPPOINTINGLY FAR BELOW TK. ONE BILLION TARGET WHILE JUTE GOODS, HELPED BY PRICE RISES, AT TK. 1650 MILLION (OVER \$200 MILLION) WERE SOMEWHAT NEARER REVISED TK. 1900 MILLION GOAL. ON OTHER HAND, TEA AND LEATHER EXPORTS EXCEEDED EXPECTATIONS.

(B) FY 1976 TARGET SET AT TK. 5.2 BILLION (\$400 MILLION) OR ABOUT 11 PERCENT ABOVE 1974/75 ACTUALS, BUT DISAPPOINTINGLY BELOW ORIGINAL FY 1975 TARGET OF \$435 MILLION. FOREIGN TRADE MINISTER CALLED FOR FURTHER DIVERSIFICATION TO ACHIEVE FY 76 TARGET. HE ESTIMATED FY 76 RAW JUTE AND JUTE GOODS EARNINGS AT TK. 4190 MILLION (\$322 MILLION), WELL ABOVE FY 75 ACTUALS. OTHER ITEMS, INCLUDING TEA AND LEATHER, ARE TO EARN TK. 1010
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MILLION (\$78 MILLION). NON-TRADITIONAL ITEMS, EXCLUDING TEA AND LEATHER, ARE TO EARN 25 PERCENT ABOVE FY 75 ACTUALS, ACCORDING TO MINISTER'S ANNOUNCEMENT. TO THIS END, MINISTER ANNOUNCED SEVERAL MODEST EXPORT INCENTIVES, INCLUDING PRIORITY ACCESS TO IMPORTED RAW MATERIALS TO ENSURE ADEQUATE SUPPLY; CREATION OF A STANDING COMMITTEE INCLUDING REPRESENTATIVES OF PRIVATE SECTOR ORGANIZATIONS TO "ENSURE ADEQUATE AND TIMELY LOANS" TO EXPORT INDUSTRIES; CONTINUATION OF CERTAIN TAX, EXCISE AND IMPORT DUTY EXEMPTIONS AND REBATES; GREATER FOREX ALLOCATIONS FOR BUSINESS TRAVEL ABROAD, AND A GOLD MEDAL AWARD FOR EXPORT PERFORMANCE.

5. PRESS AND PRIVATE REACTION. BDG-CQNTROLLED PRESS UNSURPRISINGLY WELCOMED THESE, AS ALL OTHER, ANNOUNCEMENTS AND REPORTED THAT BUSINESS ORGANIZATIONS AND PRIVATE BUSINESSMEN "HAILED" THE ANNOUNCEMENT. WHILE WE HAVE HEARD SOME MINOR BEARDMUTTERINGS, IT OUR IMPRESSION

BUSINESS COMMUNITY IN FACT PLEASED WITH OPPORTUNITIES
AFFORDED BY INCREASED IMPORT FLOWS.

6. COMMENT. MAJOR PURPOSES OF LIBERALIZED IMPORT POLICY
ARE TO INCREASE PRODUCTION AND INCOMES; GENERATE IMPORT
DUTY AND EXCISE TAX REVENUES TO HELP FINANCE DEVELOPMENT
BUDGET; AND DAMPEN INFLATIONARY IMPACT OF DEVALUATION

BY INCREASING SUPPLY OF GOODS. ON ANTI-INFLATION PROSPECT,
COMPARED TO PAST YEAR'S IMPORT LEVELS, NEXT SIX MONTHS
SHOULD IN FACT BRING SIGNIFICANT IMPROVEMENT ON SUPPLY
83. OF COURSE, MAJOR FACTOR INFLUENCING PRICE LEVEL
IS FOOD, ABOVE ALL RICE, WHERE SUPPLY DETERMINED BY
DOMESTIC PRODUCTION AND IMPORTS, BOTH WHOLLY OUTSIDE
OF IMPORT POLICY COVERAGE. YET, ADDITIONAL DOMESTIC
PRODUCTION AND INCREASED AVAILABILITY WIDE RANGE
OF MATERIALS AND PRODUCTS MAY BE EXPECTED TO LIMIT PREVIOUS
SOURCE OF UPWARD PRICE PRESSURES. (BDG OFFICIALS HOPE
THAT THE INCREASED AVAILABILITIES WILL BE SUFFICIENT NOT
MERELY TO LIMIT POST-DEVALUATION PRICE RISES, BUT ACTUALLY
BRING PRICES DOWN.) IN MEETING MANY OF RELEVANT POINTS
INCLUDED IN ACCORD WITH IMF, IMPORT POLICY EXTENDS RANGE
OF BDG ACTIONS IN LINE WITH POLICIES RECOMMENDED BY
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DONORS. LIBERALIZED IMPORT POLICY SHOULD ALSO INCREASE
MODESTLY SALES OPPORTUNITIES FOR US EXPORTERS.
BOSTER

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